

CITY OF UNALASKA

P.O. BOX 610
UNALASKA, ALASKA 99685-0610
(907) 581-1251 FAX (907) 581-1417



February 6, 2003

Kevin Waring, Chair
Local Boundary Commission
550 West 7th Avenue, Suite 1770
Anchorage, AK 99501-4539

Dear Mr. Waring:

We understand the Local Boundary Commission's role in reviewing conditions in the unorganized borough and that it is simply making the findings available to the 2003 Legislature. While we may not be able to dispute many of the findings as they relate to the conditions of borough formation as outlined in Alaska law and regulatory authority, we do have concerns about this draft report and many questions about the process and potential outcomes.

Unalaska incorporated as a first-class city in 1942, in large part to retain local control of the community following US military expansion in the area. Unalaska has benefited from its first class city status and its ability to retain local control over all aspects of community development, including education, government, and local taxation. We feel that borough formation would create an additional and unnecessary layer of government. We also believe this action would reappropriate our financial resources and create additional tax burdens on our local fisheries, businesses, and citizens. We recognize the concept of potential financial gain by replacing local educational funding with borough funding. However, at the same time, we would forfeit local control of our school district to regional decision-makers who would be forced to balance very different educational populations and needs. Borough formation would also change the local distribution of fisheries taxes and other revenues.

We would be faced with the formation and operation of a new level of government in an area of complex geography subject to the most severe weather in the state, with a single large population and economic center, and inadequate transportation and communications links. We believe the operational costs of an effective borough government in the Western Aleutian region would be excessive and the logistics and administration of such a large and uniquely remote area of the state very difficult.

Furthermore, the City of Unalaska is concerned about the possibility of a legislative mandate for borough formation within the Aleutians West/Aleutian Military Model Borough boundaries and is, therefore, not in support of borough formation.

In addition, we feel that communities were given an inadequate amount of time in which to respond to this draft report. We received an electronic copy of the almost 200-page document through Representative Moses' legislative office on Friday, January 24, after being unable to retrieve it from the state's website. We were notified that we had until February 6, only eight and a half business days, to respond in writing. We strongly object to this limited amount of time to respond to such a lengthy and potentially important document. We also have questions about the process once the final draft is submitted to the legislature later this month. We have been unable to find answers as to what might occur after the legislature receives the report. We don't know when the next opportunity might be to respond, to whom we will respond, what the timeline might be, or how to prepare our community for the possibility of the formation of a legislatively mandated borough in our region.

We feel that the potentially negative impacts to the City of Unalaska currently outweigh the positive aspects of borough formation at this point in time. The formation of a borough creates another level of government, will increase taxes for local businesses or force the City to reduce its taxes, will decrease local control especially over education and taxation, and will create the responsibility of providing new and required services for local roads and school maintenance.

In the following pages, we offer our comments on specific sections in Chapter 3 of the draft review document. For your convenience, we have noted the sections addressed by our comments.

Sincerely,
CITY OF UNALASKA



Pam Fitch
Mayor

City of Unalaska
Written Comments on
The Local Boundary Commission's January 24, 2003
Public Review Draft of The Unorganized Borough Review

Chapter 3 Application of Borough Incorporation Standards

Section B. Economic Capacity

Part 3. Reasonably Anticipated Borough Expenses

Subpart (a). Education

As indicated by the study, the largest single expense for borough governments is education. Borough formation would certainly change the status quo of education funding for the City of Unalaska. The City has historically funded its schools above the allowable local contribution required by the State of Alaska, and plans to spend just under \$3 million for education in FY03.

Unalaska School District students are provided a well-rounded education given the remoteness of the community and its limited outside educational resources. Unalaska's students historically perform well on standard aptitude tests, state benchmark exams, and the HSGQE (exit exams). In fact, Unalaska high school students outperformed all other school districts in the state in the first year of the state-mandated exit exam and continue to be better than many other districts, including large urban districts with more opportunities. *Offspring*, a parenting magazine named Unalaska City School District one of the top 100 school districts in the country in 2000. The magazine found that Unalaska City School District ranked higher than 99 percent of the districts studied based on college entrance test scores and the amount of money that was spent in the classrooms. UCSD was one of the thirteen western school districts and the only Alaskan school district named. Unlike the problem faced by other rural districts, teacher retention is not an issue in our school district. The average annual teacher turnover rate in the district is 21.5% and has been as low as 10%.

We believe Unalaska's local educational programs are successful for more reasons than the financial contributions the City has been able to make to the district. Our success also depends on parental involvement; an active and well-trained local school board; high standards set for student behavior and teacher excellence; a locally funded preschool program for 3-6 year olds staffed by a certified teacher; sports, music, language and cultural programs and opportunities for students; strong local business support; as well as financial and cultural resource support from the local native corporation. The components of this holistic success are all the result of local control in the decision-making process. Unalaska cannot agree that borough formation would help maintain or ever hope to improve the level of success our students now enjoy, nor would our successes easily translate to other schools in the region with different populations and needs.

Unalaska wishes to maintain its educational success, but we do not understand how our costs, rated in your draft report as an average of \$11,998 per student could be maintained

or future needs met when compared to the cost of \$25,649 per student in the Aleutian Region REAA. The draft report does not reflect the true costs of education in Unalaska, and we question the costs listed for the Aleutian Region REAA. The report does not address deferred maintenance on school facilities in Adak, Atka, and Nikolski. More time is clearly needed to review and evaluate those costs.

We assume a borough government would take over the responsibility for local educational bond indebtedness and manage state reimbursements, but have no information on how this might work. Our annual school debt payments total \$600,000 and debt reimbursement payments total \$450,000. We also need information on how a borough would assume ownership of school property and if this new government would reimburse the City for investments in land and infrastructure, totaling approximately \$19 million.

Subpart (b). Assessment and Collection of Taxes

The *Western Aleutians Borough Feasibility Study* done by HDR Alaska, Inc. in 1996 showed that borough government revenues could lag expenses within a short time based only on a 1% borough fish tax. The report also showed that same 1% borough tax would add approximately \$1.1 million in taxes paid by fish buyers and harvesters in the Unalaska city limits. The report indicated that another form of taxation would likely be required to support the borough government.

The report does not adequately address private property ownership in the proposed borough. We believe the majority of taxable private property exists in Unalaska and is taxed at 11.78 mils. The status of taxable property in Adak is unclear. It is doubtful that the citizens of Unalaska would support increased property taxes to support the borough. It is more unlikely that the seafood processors located in Unalaska would support increases in property tax or fish taxes to support the new borough. In fact, any borough formed in this region would be supported by the economic activities of one community. Political dissension will be guaranteed going into the process. We have a single-source, resource extraction based economy. The commercial fishing industry is very dynamic. Climatic changes, regime shift, endangered species, changes in world economies, and changes in fisheries regulations make predicting future revenues very difficult. Adding another level of infrastructure and government supported on this type of economy is not feasible without impacting the City of Unalaska and its ability to maintain what it has constructed to support the industry in the community to date.

Subpart (c). Land Use Regulation

Due to distances, weather extremes, inadequate transportation, and costs, land use regulation and enforcement would have to be delegated back to the communities in the proposed Aleutians West Borough. The amount of community boundary property in the borough would be minimal. The proposed borough would be involved in land use regulation outside of the communities. The Aleutians West Borough would be 950 miles long. In order to fly to Adak from Unalaska, people must first fly 800 miles to Anchorage and then 1200 miles to Adak. Depending on where the borough government would be located, travel would be difficult and extremely expensive. A round trip ticket

from Unalaska to Anchorage averages about \$900 dollars. Due to weather delays, it is not uncommon for travelers to spend three days in Anchorage trying to get home. It is hard to imagine the distances and expenses for those who do not live in the region, but we urge that this consideration be reflected in the final report.

Part 4. Reasonably Anticipated Borough Income

Subpart (a) Locally Generated Income

Property Taxes

The City of Unalaska appears to be the only community in the proposed borough that levies property taxes. As mentioned above, the future of Adak is not well defined at this time and the amount of private taxable land is uncertain. The rest of the region has little private land of value that could contribute to a borough tax base, if necessary. Again, a borough government would likely be most heavily supported by property owners in Unalaska under this scenario and would not be feasible.

The draft also fails to mention what would happen if a borough were formed with associated tax assessment & collection authority given that Unalaska levies property taxes to support its existing government. We need a better understanding of this scenario and if it has happened in other boroughs, how it has worked. Any future reports should address this issue and how it might impact borough and city authority.

General Sales Taxes

The City of Unalaska imposes a sales tax at 3% of gross sales and represents approximately \$5 million in annual revenue. The City Council feels that this is at the upper end of politically supported taxes. A borough sales tax might require the borough to take over administration of all sales tax borough-wide. We expect that the complexities of enforcing a borough-wide sales tax would cost more in governmental expenses than would be generated by imposition of the tax. Sales tax audits are also a standard enforcement tool for sales tax code. Given the size of this proposed borough and the transportation links that exist, the costs of travel for performing audits would be prohibitive. For these reasons, we believe a borough sales tax would not be a feasible means of supporting the proposed government.

Targeted Taxes

As the report indicates, Unalaska currently levies a 2% raw fish tax and a 5% bed tax. Of the two, the fish tax is the most important to local revenues. The processors and harvesters will not support the imposition of another 1% fish tax to support a borough. We believe the increase in the local tax burden from a borough fish tax would not offset the proposed financial benefit of no longer having to fund education in the community.

The report omits mention of targeted taxes such as fuel transfer taxes in Adak and the 2% raw fish tax and 10% bed tax levied in Atka. While we cannot comment with any certainty on the other communities in the proposed borough formation area, they do levy targeted taxes and will likely have objections of their own to the addition of other taxes.

Other Sources of Locally Generated Revenue

The generation of enterprise revenues cannot be considered as revenues that would help the formation of a borough. Enterprise funds, typically utilities, are not used to generate revenue for the General Fund. In fact, the City of Unalaska General Fund subsidizes many of our Enterprise Funds. Last year almost \$1 million dollars was transferred from our General Fund to various utility funds. The tables presented do not give enough information to draw any valid conclusions as to the benefits of this type of revenue in relationship to borough formation.

Subpart (b). State and Federal Aid

Organization Grants

This study does not include the organizational plan for a newly formed Aleutians West Borough. We believe the organizational grant funding from the state should be doubled for the formation of a borough in this region due to location, proposed size, transportation and weather limitations, and additional costs.

Part 4. Reasonably Anticipated Borough Income

Subpart (b) Municipal Land Entitlement

The new borough is entitled to ten percent of vacant land, unreserved and unappropriated State lands. Although there is plenty of vacant land in the Aleutians-- 68% is designated as wilderness, as defined by the 1964 Wilderness Act. The United States Fish and Wildlife Maritime Refuge, Aleutians Unit consists of approximately 3.9 million acres alone. Between the national wildlife refuge and the competing selection rights of the native corporations, there is very little remaining state land. The new borough would not have the potential of additional income under the Municipal Land entitlement. Any further movement toward borough formation in the region must fairly and equitably address this issue.

State Revenue Sharing Program

While Unalaska wouldn't see a change in this program with borough formation except that the funding for this program has been reduced by the legislature over time.

Payment in Lieu of Taxes

PILT payments are made to boroughs that collect property taxes or directly to communities that levy property taxes. Unalaska is currently the only city in the proposed borough collecting property taxes. The draft report doesn't include calculations for this possible revenue. We don't think PILT payments should be considered as a source of borough revenue for all the reasons stated earlier.

Safe Communities Program

Revenue from this program is a pass through type grant to communities and should not be considered as revenue for the Aleutians West Model. For reasons of logistics and cost savings, any mandated borough formation in our region would most likely take up only limited powers.

State Shared Fisheries Business Tax and Fisheries Landing Tax

Distribution of state shared fisheries tax revenues in both categories would change for Unalaska. The state now shares 50% of the revenues collected from these fisheries with Unalaska. Under a borough form of government, the borough would receive the entire local share, retain 25% for borough use, and distribute the remainder to the communities that qualify for payments. Based on our FY2003 budget, Unalaska would see a \$3.26 million loss of revenue. This loss is clearly not offset by not having to pay for local education costs.

Alaska Coastal Management Program

A new borough government would receive funding for and manage this program for the Aleutians West Coastal Resource Service Area. With ongoing reductions in funding for coastal zone management in the state, we feel it is not a reliable or adequate source of funding to manage the program in its current form at the borough level.

Capital Matching Grants

While there would be no change to the way this program is administered, borough governments are responsible for planning in areas outside city limits. In our proposed borough area, this could mean the creation of more projects. More projects identified in more new boroughs could mean more government competition for the \$15 million currently available on a yearly basis.

Part 5. Ability to Generate and Collect Local Revenue

As stated in the LBC draft report, the ability of a borough to generate and collect local revenue is influenced by many factors such as existing revenues, taxable property, land ownership, poverty and unemployment, percent of non-working adults, household income, and economic activity. A borough in this region would place a large, ethnically diverse, working community into a government with smaller traditional communities with less diverse populations and limited economic and tax potential. We feel the data in the draft report does not clearly address these large differences. The study places Unalaska Atka, Adak, Nikolski, Shemeya, and Attu into averaged categories. While our communities are certainly culturally bound to the rich Aleut heritage evident in the Aleutians, they are as different as night and day economically.

Adak is struggling through the unenviable tasks of downsizing its infrastructure, which was designed for a military community of over 6,000 people. The existing infrastructure cannot be afforded nor supported by its current population of slightly more than 300 people.

Atka and Nikolski are largely subsistence economies. Shemeya and Attu are places that very few people have ever been to. It is unlikely that there will ever be economic activity, beyond military support services, in these places. Alternatively, Amchitka may undergo cleanup activities in the future, as it was a site of nuclear testing during the height of the cold war. That cleanup, if ever undertaken, would likely be accomplished by military contractors from outside the region adding little value to a borough economy.

Unemployment

Data concerning Unalaska can be deceiving in the respect that people who do not or cannot find work leave the island because they simply cannot afford to stay. Anyone who wants to work can usually find work here in Unalaska.

Part 6. Economic Base, Land Use, and Development

Subpart (b) Aleutians West Model Borough

Part 3. Reasonably Anticipated Borough Expenses

Subpart (a). Education

Line 18 should read “the nation’s most productive fishing port, the City of Unalaska’s International Port of Dutch Harbor.” The region’s fledgling tourism and sport fishing industries are few and limited. Some of the world’s most severe and unpredictable weather, limited transportation options, and the cost of air travel seriously hamper growth in these new sectors of the economy. We are certainly hopeful that these businesses will continue to grow in our region, but tourism development in the Aleutians should not be viewed as a serious source of potential development for the purposes of borough formation or a potential tax base. Tourism may grow in other areas of Alaska, but weather, geographic isolation, and costs place a very real limit on its development in our region.

Part 7. Property Valuations

We have concerns about this section of the draft report. Based on the State Assessor’s estimate of property values located outside of current school district boundaries, the proposed borough in the Aleutians West Model indicates only \$14 million in taxable property. These potentially taxable properties would only generate approximately \$140,000 at 10 mils. This estimated amount is clearly inadequate to support all borough functions outside of Unalaska’s city limits.

The study in this section gives data for per capita property values, personal income and estimated per capita household income. The one thing missing is the cost of living for the areas in the model boroughs. It cost more to build a house in Unalaska than it does in Juneau. A person in Unalaska has to make more money to survive than a person in Anchorage. The cost of living is an important component that has been left out of this date and should be reflected in the final report.

Part 9. Prior Borough Feasibility Studies

While we were unable to review the 1989 *Aleutians West Borough Feasibility Study*, prepared by the Department of Community and Regional Affairs mentioned in the draft report, we did review the 1996 study for the City of Unalaska by HDR Alaska, Inc. in 1996. The *Western Aleutians Borough Feasibility Study* concluded that:

- ❑ The region met the constitutional, statutory, and regulatory standards for borough formation.
- ❑ A borough government could afford to provide the non-educational functions of such a government structure.
- ❑ Borough formation would change the status quo of educational funding, especially for the City of Unalaska. Educational costs vs. revenues are not

favorable, unless provided for at the basic need level. If the borough were to provide funding at either the cap or above the cap (as Unalaska does), additional revenue sources would have to be found, probably in the form of a borough sales tax or property taxes.

- ❑ Distribution of fisheries tax revenues would change. A portion of the shared tax revenues now going to the cities would be distributed to a borough government with an expected reduction of local contributions of 25% over five years.
- ❑ Depending on revenue projections, a phased-in reduction of local contributions to educational funding may not be offset by revenues generated in a borough general fund unless additional taxes are levied.
- ❑ A borough fish tax of 1% would add an estimated \$1.1 million in taxes to fish buyers and harvesters located in the city limits of Unalaska alone. This would not be supported by the industry, especially if Unalaska (and now Adak) continue to levy their 2% local raw fish taxes.

Questions raised in the 1996 study remain unanswered today. How might borough generated fish taxes impact commercial activities in the region? Would the transfer of 10% of state-owned land to a borough be feasible? This would be the case only if state lands are available after the recent land transfer on Adak. State-owned land is not available in the other areas of the Aleutians West region.

The HDR study identified benefits to borough formation. The pros include: protection from forces annexation or mandatory borough incorporation (now in question); a larger voice in regional and state affairs; land management powers; a potential for land transfer with the inclusion of Adak, and additional powers and local authority.

The HDR study showed that borough formation was feasible from a legal standpoint in 1996, but not from a financial standpoint. Nothing in the current LBC draft report changes that reality for Unalaska.

Part 10. Conclusions Regarding Economic Capacity

The Commission has concluded that all eight unorganized areas under review are economically capable of providing borough services. However, there is no transition plan included in the study for each of the model boroughs. Additional input is needed from the communities on how the model borough could work. If the economies are truly viable and meet the requirements for incorporation in all eight model boroughs, we believe they would have incorporated as boroughs voluntarily and with local government, city council, and school board support.

In truth, local city councils have been under increasing pressure to increase taxes as state funding has slowly dwindled. Unalaska and other communities have considered borough incorporation as a means to improve their financial conditions and their conclusions have been that borough formation is not attractive or viable at this time.

Section C. Population Size and Stability

The majority of the population in this very large proposed borough reside in Unalaska. The population will remain stable as long as the commercial fisheries remain stable. The famous crab stock crash of the early 1980s resulted in an exodus of community members from Unalaska. The economy of Adak was thriving when the military was present, but since the base closure has been struggling. Currently, the Adak economy relies on some fisheries related activity and government subsidies to exist. It is likely that if those subsidies go away, so will Adak. The recent addition of jet service to Adak will require an additional government subsidy to keep the airfield operable under FAA regulations.

Unalaska comprises 90% of the population in the model borough. Population alone does not make a borough feasible. The lack of economic diversity in Unalaska makes it hard to perform meaningful long-term planning. Processing plants are reluctant to make large investments due to the dynamics of the fisheries and ever increasing fixed costs.

Part 2. Populations Stability

The Aleutians West Model Borough Population Trends 1980-2000 illustrates the volatility of the region. In 1980, Adak had 3,315 individuals and today they have 316. From 1980 the region has dropped 43.7 %. Unalaska's growth has followed the lucrative upturn in commercial fisheries. As happens in a rapid growth cycle, this fishery was overcapitalized and was rationalized with the federal American Fisheries Act. Out of that legislation about 8 large vessels were removed from the fleet of factory trawlers. The North Pacific Fisheries Management Council is now working on a crab rationalization plan that is expected to reduce the number of crab boats that work in the region.

We believe the LBC and legislature must keep these facts in mind as decisions are made about economic and population stability in the western Aleutians region. As the fisheries undergo major regulatory changes, population growth trends will be affected.

Section D. Regional Commonalities

Subpart (a). Aleutians West Model Borough

The study indicates that the social, cultural, and economic activities in our region share commonalities that meet borough organizational requirements. As stated before, in each of these areas, the commonalities are superficial in key areas. Unalaska's characteristics overshadow those of the much smaller communities of Adak, Atka, and Nikolski and share nothing but geography with Attu and Shemya.

Subpart (a)(v) Public Safety Service Delivery

The draft report incorrectly refers to an Alaska State Trooper post in Unalaska. Only Fish & Wildlife Protection officers are stationed here. Troopers for this area are stationed in Dillingham.

Subpart (a)(xi) Dependence on a community for community transportation, entertainment, news and professional services

Unalaska is the transportation hub for Nikolski, Akutan, and Atka. From Adak and areas to the west, travelers must first fly to Anchorage. Only the military has air service to

Shemya and Attu. We believe the report should indicate, more correctly, that Anchorage is the transportation hub for a proposed Aleutians West Borough

Subpart (a)(xvi) Existence throughout the proposed borough of customary and simple transportation and communication patterns

Unalaska is not the communication hub for the Western Aleutians. As stated above, Unalaska is not the transportation hub for the entire western Aleutian region. Transportation, whether by air or water, is very expensive and anything but simple in the Aleutians due to its remote location from the mainland and volatile weather conditions. The other island communities in Alaska are served regularly by the Alaska Marine Highway System, which provides a less expensive alternative form of transportation to residents. Unalaska is the only southwestern community in Alaska and in the proposed borough served by the Marine Highway system, a service which is very limited and under periodic threat from legislative funding reductions.

Part 4. Natural Geography and Necessary Areas

The development of borough services is to be done in an efficient, cost effective manner. We guarantee that the formation and support for a 950-mile long borough will never be efficient or cost effective. We urge the LBC to go through a logistical exercise and attempt to schedule travel to all points in the Aleutians West Region. More than likely it will take at least a month to travel to the communities you reference in the model borough boundaries. A traveler should allow for three to four “weather days” for each community referenced. The farther out the chain you go the less frequent the flights.

Part 1. Best Interest of the State

There have been many articles in newspapers over the years, quoting legislators who would like the citizens of rural Alaska to pay their fair share of contributions towards education in their communities. Borough incorporation appears to be one way of ensuring that this concern is addressed. From the draft report, it appears that the best interest of the state is served if local governments pay a larger amount for education and other services. Unalaska is able to and has paid its fair share, especially with regards to education. In fact, the percentage of Unalaska’s local contribution is fast matching state dollars allocated for school funding. The community feels that its financial contribution and other forms of local support have resulted in a superior school. For more details, please refer back to our comments on Part 3, subsection (a), Education.

The City of Unalaska already has sales taxes, property taxes and fish taxes in place. The study indicates that the State encourages regions to assume and exercise local self-determination and provide municipal services that are funded and provided at the local level. The City of Unalaska has done just that. “Article X, Section 1 of Alaska’s constitution promotes maximum local self government which encourages the extension of borough government in areas that satisfy the standards for borough incorporation and annexation.” We believe what is lacking from this statement is the addition of “and such borough incorporation makes sense to the citizens of the borough.”

Section 1 declares in part, “The purpose of this article is to provide for maximum local self government with a minimum of local government units, and to prevent duplication of tax-levying jurisdictions...” In the case of the Aleutians West Model Borough, the borough could levy taxes but the burden would be on 90% of the citizens of the borough or Unalaska.

We recognize that the state legislature acts as the assembly for the unorganized borough and has the authority to mandate borough formation as was done in 1963. However, we believe borough formation should be decided at the local levels by a vote, as also provided for in the law.

The draft report only comments on the viability of the criteria outlined in statute and regulations. This report does not attempt to explain how much the state expects to save by mandating borough formation, specifically in our region. Neither does the report address how borough classes, taxing authorities, and taxing levels are established when borough formation is mandated. We have questions on who may set the level and type of taxation, if the voters do not do it. If the state sets a tax type and amount, it could be inadequate to support a borough. Would the voters in the borough be placed in the position to vote for added taxes to support a government they may not want? We feel more information is needed to answer questions like these and adequate time in which to respond to the information.

Conclusion. City of Unalaska Review of Aleutians West Model Borough

It appears that before any interpretation of the facts are made from this report with regard to the Aleutians West Borough Model, further investigation of the facts are warranted. We would expect to see and participate in a detailed transition plan. We urge the LBC and the legislature to authorize a comprehensive study that will answer these questions so that the communities can identify distinct advantages and disadvantages of borough formation.